

ALLEN PARISH HOSPITAL  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
JUNE 30, 2009, 2008 AND 2007

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/16/09



**LESTER, MILLER & WELLS**  
*A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Years Ended June 30, 2009, 2008 and 2007

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Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

**Management's Discussion and Analysis**

This section of the annual financial report for Hospital Service District No. 3 of Allen Parish, State of Louisiana d/b/a Allen Parish Hospital (the Hospital) provides background information and management's analysis of the Hospital's financial performance during the fiscal years that ended June 30, 2009, 2008 and 2007. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

**Financial Highlights**

- The Hospital's total assets decreased by \$780,210 in 2009, compared to increases of \$180,354 and \$212,774, respectively, for 2008 and 2007. The overall decrease in 2009 is attributable to decreased accounts receivable due to decreased patient volume and a reduction in cash and cash equivalents due to the necessity of paying expenses directly and indirectly associated with a plan of correction required after a Federal and State survey. The increases for 2008 and 2007 were due to the acquisition of capital assets and increased accounts receivable driven by increased patient volume.
- Total revenue for the Hospital decreased by \$234,086 in 2009, as opposed to increases of \$1,350,698 and \$634,405 for 2008 and 2007, respectively. A decrease in patient volume accounts for the revenue decrease in 2009. Expenses increased \$154,314, \$1,567,609 and \$1,000,348 or 1.3%, 14.7% and 10.3% for fiscal years 2009, 2008 and 2007, respectively. These increases are primarily attributable to salaries and consulting fees. The Hospital experienced operating losses of \$568,903 in 2009 and \$180,503 in 2008, compared to operating income of \$36,408 in 2007.

In 2009, \$109,634 was invested in capital assets versus capital acquisitions of \$641,564 and \$186,583 in the two previous years. The majority of the capital acquisitions for 2009 include facility improvements necessary to comply with a plan of correction required after a Federal and State survey and purchases/upgrades of computer equipment for the Radiology Department.

**Required Financial Statements**

The financial statements contained in this report are presented using Governmental Accounting Standards Board (GASB) accounting principles. These financial statements provide overall information about the Hospital's financial activities on both short-term and long-term basis. The balance sheets present information about its assets (resources) and liabilities (the amounts obligated to its creditors). The statements of revenue, expenses, and changes in net assets present information about the current and prior year's activities in revenues and expenses. This statement also provides useful information for determining whether the Hospital's patient service revenue and other revenue sources were sufficient to allow the Hospital to recover all of its costs. The final required financial statement is the statement of cash flows which provides information about the Hospital's cash from operations, investing and financing activities. In addition, this statement provides useful information to answer questions such as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

Management's Discussion and Analysis

**Financial Analysis of the Hospital**

The balance sheet and the statement of revenue, expenses and changes in net assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

**Net Assets**

A summary of the Hospital's Balance Sheets are presented in Table 1 below:

**TABLE 1**  
**Condensed Balance Sheets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total current assets	\$ 2,294,710	\$ 2,795,925	\$ 2,869,042	\$ 2,813,901
Capital assets, net	1,909,879	2,187,958	1,928,676	1,718,563
Assets whose use is limited	2,784	2,781	2,768	55,248
Other assets	9,514	10,433	16,257	16,257
Total assets	\$ <u>4,216,887</u>	\$ <u>4,997,097</u>	\$ <u>4,816,743</u>	\$ <u>4,603,969</u>
Total current liabilities	\$ 2,290,532	\$ 2,142,631	\$ 1,683,060	\$ 1,543,591
Long-term debt, net of current maturities	1,021,580	1,311,097	1,344,331	1,183,334
Total liabilities	3,312,112	3,453,728	3,027,391	2,726,925
Invested in capital assets, net of related debt	832,295	208,894	250,236	227,458
Restricted net assets	2,784	2,781	2,768	55,248
Unrestricted net assets	69,696	1,331,694	1,536,348	1,594,338
Total liabilities and net assets	\$ <u>4,216,887</u>	\$ <u>4,997,097</u>	\$ <u>4,816,743</u>	\$ <u>4,603,969</u>

As can be seen in Table 1, total assets decreased by \$780,210 in 2009 compared to increases of \$180,354 in 2008 and \$212,774 in 2007. The decrease in 2009 is due to decreased patient volume and the unexpected incurrence of expenses directly and indirectly associated with a plan of correction required after a Federal and State survey. The increase in 2008 is attributable to capital acquisitions. The 2007 increase can be attributed to increases in patient service revenue primarily due to ancillary service lines. The current ratio decreased to 1.00 in 2009, compared to 1.30 in 2008 and 1.70 in 2007. Recommendations are that a health care facility should strive to maintain a ratio of 1.25 or higher.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

Management's Discussion and Analysis

**Summary of Revenue, Expenses and Changes in Net Assets**

The following table represents the Hospital's Statements of Revenue, Expenses and Changes in Net Assets for the fiscal years ended June 30:

**TABLE 2**  
**Condensed Statements of Revenue, Expenses and Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net patient service revenue	\$ 11,138,265	\$ 11,228,208	\$ 9,925,630	\$ 9,292,378
Maintenance taxes	622,111	616,908	601,499	577,400
Other revenue	83,881	233,227	200,516	223,462
Total operating revenues	<u>11,844,257</u>	<u>12,078,343</u>	<u>10,727,645</u>	<u>10,093,240</u>
Salaries and employee benefits	6,495,555	6,363,387	5,625,454	4,892,340
Supplies and other	2,286,197	2,425,103	2,256,809	2,196,002
Professional, mgt. and consulting fees	2,830,109	2,669,000	2,127,701	1,943,391
Insurance	357,365	368,176	284,555	263,072
Depreciation and amortization	443,934	433,180	396,718	396,084
Total operating expenses	<u>12,413,160</u>	<u>12,258,846</u>	<u>10,691,237</u>	<u>9,690,889</u>
Operating income (loss)	(568,903)	(180,503)	36,408	402,351
Nonoperating income (expenses)	<u>(69,691)</u>	<u>(65,480)</u>	<u>(124,100)</u>	<u>(76,960)</u>
Excess of revenue over expenses	(638,594)	(245,983)	(87,692)	325,391
Net assets - beginning of year	<u>1,543,369</u>	<u>1,789,352</u>	<u>1,877,044</u>	<u>1,551,653</u>
Net assets - end of year	\$ <u>904,775</u>	\$ <u>1,543,369</u>	\$ <u>1,789,352</u>	\$ <u>1,877,044</u>

**Sources of Revenues**

**Net Patient Service Revenue**

During fiscal year 2008-2009, the Hospital derived the majority of its total revenue from patient services. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. During the year, provisions for bad debt increased by \$212,179, versus an increase of \$828,243 in 2008 and an increase of \$557,176 in 2007. The increase in the most recent year is attributable to economic factors. The increases in prior years were attributable to the continued increase in patient service charges.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

Management's Discussion and Analysis

Other Revenue

Other revenue includes cafeteria sales, rental income, grant income, and other miscellaneous services. The Hospital holds designated and restricted funds in its balance sheets that are invested primarily in money market funds and certificates of deposit. These investments earned \$5,045, \$24,128 and \$33,726 during fiscal years 2009, 2008 and 2007, respectively.

Table 3 presents the relative percentages of gross charges billed for patient services by payor for the fiscal years ended June 30:

**TABLE 3**  
**Payor Mix by Percentage**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Medicare	30.0%	34.2%	32.6%	35.0%
Medicaid	32.5%	35.8%	35.3%	38.8%
Commercial	21.5%	21.2%	18.6%	15.6%
Self-pay and other	<u>16.0%</u>	<u>8.8%</u>	<u>13.5%</u>	<u>10.6%</u>
Total patient revenue	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Operating and Financial Performance**

The following summarizes the Hospital's Statements of Revenue, Expenses and Changes in Net Assets between 2009, 2008 and 2007:

Overall activity, as measured by acute patient, skilled patient and psychiatric patient discharges, remained relatively constant with a modest increase of 7 or .5% for 2009. By comparison, discharges increased by .7% during 2008 and 7.1% during 2007. Patient days decreased in 2009 by 15.4% from 10,071 to 8,522. By comparison, patient days increased in 2008 by 2.7%, from 9,809 to 10,071 and decreased in 2007 by 4.2% from 10,236 to 9,809. The average length of stay for acute patients increased slightly during the past year to 2.47 days, compared to 2.42 days in 2008 and 2.50 days in 2007. The average length of stay for skilled care patients decreased to 12.21 days in 2009, compared to 12.50 days in 2008 and 11.45 days in 2007. Length of stay for psychiatric care during 2009 was 8.72 days, compared to 12.94 days in 2008 and 11.13 days in 2007. Total net patient service revenue decreased by \$89,943 in 2009, as opposed to increases of \$1,302,578 in 2008 and \$633,252 in 2007. This translates to a decrease of less than 1% for 2009 and increases of 13.1% and 6.8% for 2008 and 2007, respectively.

Gross inpatient and outpatient service charges decreased by \$740,178 or 3.5% in 2009, as opposed to increases of \$2,307,491 or 12.3% and \$1,107,838 or 6.3% in 2008 and 2007, respectively. The decrease in revenue in the current year is attributable to lower utilization of inpatient acute and psychiatric services.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

Management's Discussion and Analysis

**Operating and Financial Performance (Continued)**

Net days in accounts receivable dropped significantly in 2009 to 53.6 days, compared to 63.4 days in 2008 and 63 days in 2007.

Employee related expenses continued to rise to \$6,495,555 or an increase of \$132,168 over 2008 expenses of \$6,363,387. By comparison, employee related expenses for 2007 were \$5,625,454. The increased cost of providing benefits such as health insurance, coupled with the increased cost of recruiting and retaining staff are the causes of the continued rise in employee related expenses. As a percentage of net patient service revenue, these expenses are 58.3%, 56.7% and 56.7% in 2009, 2008 and 2007, respectively.

Supplies and other expenses decreased by \$138,906 in 2009, compared to increases of \$168,294 in 2008 and \$60,807 in 2007. The fluctuation in these expenses is tied to changes in the volume of patient services.

Professional, management and consulting fees increased by \$161,109 for 2009 compared to increases of \$541,299 and \$184,310 for 2008 and 2007, respectively. The increase in the recent year is primarily due to expenses directly and indirectly associated with a plan of correction required after a Federal and State survey.

Insurance expense decreased by \$10,811 compared to increases of \$83,621 and \$21,483 in 2008 and 2007, respectively. The decrease in the most recent year is primarily a result of competitively shopping for the best rates available.

With the exception of salaries and benefits, operating expenses increased by a total of \$22,146 for 2009, compared to increases of \$829,676 for 2008 and \$267,234 for 2007. As a percentage of net patient service revenue, total operating expenses, without salaries and benefits, were approximately 53.1%, 52.5% and 51.0% for 2009, 2008 and 2007, respectively.

Depreciation and amortization expense increased by \$10,754 in 2009 compared to increases of \$36,462 in 2008 and \$634 in 2007.

Interest expense decreased by \$16,069 or 17.7% in 2009 as opposed to an increase of \$16,661 or 22.5% in 2008 and a decrease of \$16,220 or 17.9% in 2007. The fluctuations in interest expense over the last three years are directly related to the financing activity by the Hospital within the respective fiscal year.

Maintenance tax income increased \$5,203 or .8% for 2009, compared to increases of \$15,409 or 2.6% for 2008 and \$24,099 or 4.2% for 2007.

A decrease of other operating revenue in the amount of \$5,763 occurred in fiscal year 2009, compared to decreases of \$103,624 in fiscal year 2008 and \$9,178 in fiscal year 2007.



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
Allen Parish Hospital

Management's Discussion and Analysis

**Capital Assets**

In fiscal year 2009, the Hospital made facility improvements necessary to comply with a plan of correction required after a Federal and State survey and purchased/upgraded computer equipment in the Radiology Department. The Hospital's capital assets activities are included in Table 4 below:

**TABLE 4**  
**Capital Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land and land improvements	\$ 124,480	\$ 123,830	\$ 81,182	\$ 72,046
Buildings	1,979,042	1,965,581	1,637,838	1,546,810
Fixed equipment	254,266	254,266	254,266	240,716
Major movable equipment	<u>3,694,652</u>	<u>3,573,486</u>	<u>3,252,541</u>	<u>2,954,921</u>
Totals at historical cost	6,052,440	5,917,163	5,225,827	4,814,493
Less accumulated depreciation and amortization	4,142,561	3,729,205	3,318,427	3,106,376
Construction in progress	<u>-0-</u>	<u>-0-</u>	<u>21,276</u>	<u>10,446</u>
Net property, plant and equipment	\$ <u>1,909,879</u>	\$ <u>2,187,958</u>	\$ <u>1,928,676</u>	\$ <u>1,718,563</u>

**Long-Term Debt**

At year-end, the Hospital had \$1,816,584 in short-term and long-term debt, compared to \$1,979,064 on June 30, 2008 and \$1,678,442 on June 30, 2007. Principal payments on the outstanding long-term debt totaled \$343,733, \$337,020 and \$336,591 for 2009, 2008 and 2007, respectively. More detailed information about the Hospital's long-term liabilities is presented in the notes to financial statements.

**Contacting the Hospital's Financial Manager**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.



## **LESTER, MILLER & WELLS**

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### INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 3, Parish of Allen, State of Louisiana, Allen Parish Hospital (the Hospital), a component unit of the Allen Parish Police Jury, as of and for the years ended June 30, 2009, 2008 and 2007, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 3, Parish of Allen, Allen Parish Hospital as of June 30, 2009, 2008 and 2007; and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Allen Parish Hospital will continue as a going concern. As discussed in Note 16 to the financial statements, under existing circumstances, there is substantial doubt about the ability of Allen Parish Hospital to continue as a going concern at June 30, 2009. Management's plans in regard to that matter also are described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana  
Page Two

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Management's Discussion and Analysis on pages "i" through "vi" is not a required part of the financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Lester, Miller & Wells*

Certified Public Accountants  
Alexandria, Louisiana

November 12, 2009



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Balance Sheets  
June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 96,033	\$ 259,851	\$ 566,645
Investments	219,796	215,250	207,385
Patient accounts receivable, net of estimated uncollectibles (Note 4)	1,636,963	1,945,680	1,714,097
Inventory	265,977	296,100	296,188
Prepaid expenses	<u>75,941</u>	<u>79,044</u>	<u>84,727</u>
Total current assets	<u>2,294,710</u>	<u>2,795,925</u>	<u>2,869,042</u>
Property, plant and equipment, net (Note 5)	1,909,879	2,187,958	1,928,676
Assets whose use is limited (Note 6)	2,784	2,781	2,768
Other assets	<u>9,514</u>	<u>10,433</u>	<u>16,257</u>
Total assets	\$ <u>4,216,887</u>	\$ <u>4,997,097</u>	\$ <u>4,816,743</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	\$ 640,889	\$ 502,562	\$ 437,233
Accrued expenses (Note 7)	340,136	303,653	348,251
Estimated Medicare and Medicaid program settlements	514,503	668,449	563,465
Current maturities of long-term debt (Note 8)	<u>795,004</u>	<u>667,967</u>	<u>334,111</u>
Total current liabilities	<u>2,290,532</u>	<u>2,142,631</u>	<u>1,683,060</u>
Long-term debt, net of current maturities (Note 8)	<u>1,021,580</u>	<u>1,311,097</u>	<u>1,344,331</u>
Total liabilities	<u>3,312,112</u>	<u>3,453,728</u>	<u>3,027,391</u>
Net assets:			
Invested in capital assets, net of related debt	832,295	208,894	250,236
Restricted net assets	2,784	2,781	2,768
Unrestricted net assets	<u>69,696</u>	<u>1,331,694</u>	<u>1,536,348</u>
Total net assets	<u>904,775</u>	<u>1,543,369</u>	<u>1,789,352</u>
Total liabilities and net assets	\$ <u>4,216,887</u>	\$ <u>4,997,097</u>	\$ <u>4,816,743</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Statements of Revenue, Expenses and Changes in Net Assets  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Net patient service revenue	\$ 11,138,265	\$ 11,228,208	\$ 9,925,630
Grant income	20,281	163,864	27,529
Maintenance taxes	622,111	616,908	601,499
Other	<u>63,600</u>	<u>69,363</u>	<u>172,987</u>
Total revenues	<u>11,844,257</u>	<u>12,078,343</u>	<u>10,727,645</u>
Expenses:			
Salaries and benefits	6,495,555	6,363,387	5,625,454
Medical supplies and drugs	902,315	996,288	1,018,772
Supplies	557,671	595,917	521,935
Professional, management and consulting fees	2,830,109	2,669,000	2,127,701
Other expenses	826,211	832,898	716,102
Insurance	357,365	368,176	284,555
Depreciation and amortization	<u>443,934</u>	<u>433,180</u>	<u>396,718</u>
Total expenses	<u>12,413,160</u>	<u>12,258,846</u>	<u>10,691,237</u>
Operating income (loss)	(568,903)	(180,503)	36,408
Nonoperating income (expenses):			
Interest income	5,045	24,128	33,726
Interest expense	(74,736)	(90,805)	(74,144)
Gain (loss) on disposal of asset	<u>-0-</u>	<u>1,197</u>	<u>(83,682)</u>
Excess of revenue over expenses	(638,594)	(245,983)	(87,692)
Net assets beginning of year	<u>1,543,369</u>	<u>1,789,352</u>	<u>1,877,044</u>
Net assets end of year	\$ <u>904,775</u>	\$ <u>1,543,369</u>	\$ <u>1,789,352</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Statements of Cash Flows  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 11,293,036	\$ 11,101,609	\$ 9,808,848
Other operating cash receipts	705,992	850,135	802,015
Cash paid to suppliers	(5,302,118)	(5,391,179)	(4,737,218)
Cash paid to employees and for employee benefits	<u>(6,459,072)</u>	<u>(6,407,985)</u>	<u>(5,537,332)</u>
Net cash provided (used) by operating activities	<u>237,838</u>	<u>152,580</u>	<u>336,313</u>
Cash flows from investing activities:			
Interest on investments	5,045	24,128	33,726
Other assets	(9,899)	(11,250)	-0-
Cash invested in certificates of deposit	<u>(4,546)</u>	<u>(7,865)</u>	<u>(9,005)</u>
Net cash provided (used) by investing activities	<u>(9,400)</u>	<u>5,013</u>	<u>24,721</u>
Cash flows from noncapital financing activities:			
Principal payments on short-term debt	(620,276)	-0-	-0-
Proceeds from short-term debt	<u>756,126</u>	<u>295,000</u>	<u>-0-</u>
Net cash provided (used) by noncapital financing activities	<u>135,850</u>	<u>295,000</u>	<u>-0-</u>
Cash flows from capital and related financing activities:			
Principal payments on long-term debt	(343,733)	(337,020)	(336,591)
Interest expense on long-term debt	(74,736)	(90,805)	(74,144)
Proceeds from long-term debt	-0-	300,000	-0-
Assets whose use is limited	(3)	(13)	52,480
Cash proceeds from sale of assets	-0-	10,015	20,000
Acquisition of capital assets	<u>(109,634)</u>	<u>(641,564)</u>	<u>(186,583)</u>
Net cash provided (used) by capital and related financing activities	<u>(528,106)</u>	<u>(759,387)</u>	<u>(524,838)</u>
Net increase (decrease) in cash and cash equivalents	(163,818)	(306,794)	(163,804)
Cash and cash equivalents, beginning of year	<u>259,851</u>	<u>566,645</u>	<u>730,449</u>
Cash and cash equivalents, end of year	\$ <u>96,033</u>	\$ <u>259,851</u>	\$ <u>566,645</u>

See accompanying notes to financial statements.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Statements of Cash Flows (Continued)  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>74,736</u>	\$ <u>90,805</u>	\$ <u>74,144</u>
Equipment acquired under capital lease	\$ <u>45,403</u>	\$ <u>42,642</u>	\$ <u>523,930</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ (568,903)	\$ (180,503)	\$ 36,408
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	443,934	433,180	396,718
Changes in:			
Patient accounts receivable	308,717	(231,583)	(126,345)
Estimated Medicare and Medicaid program settlements	(153,946)	104,984	9,564
Inventory	30,123	88	(38,675)
Prepaid expenses	3,103	5,683	(44,920)
Accounts payable	138,327	65,329	15,441
Accrued expenses	<u>36,483</u>	<u>(44,598)</u>	<u>88,122</u>
Net cash provided (used) by operating activities	\$ <u>237,838</u>	\$ <u>152,580</u>	\$ <u>336,313</u>

See accompanying notes to financial statements.

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Notes to Financial Statements  
Years Ended June 30, 2009, 2008 and 2007

**NOTE 1 - ORGANIZATION AND OPERATIONS**

**Legal Organization**

The Allen Parish Hospital Service District No. 3 (the "Hospital" or the "District") was created by an ordinance of the Allen Parish Police Jury.

The Hospital is a political subdivision of the Allen Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Allen Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Allen Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Allen Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

**Nature of Business**

The District provides acute and psychiatric inpatient services, skilled nursing (through "swing-beds"), emergency, home health, and outpatient services, including a rural health clinic and a private physician clinic.

**Hospital Land**

The land on which the Hospital was built was donated by Powell Lumber Company to Allen Parish Hospital Service District No. 3. The donation was made with the restriction that the land is to be used primarily as a site for a public hospital and should the donee or their successors or assignees fail to use the land for a public hospital, the title shall revert to Powell Lumber Company.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Enterprise Fund**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Basis of Accounting**

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, and to the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.



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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of deposits in checking, money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities of more than 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

**Credit Risk**

The District provides medical care primarily to Allen Parish residents and grants credit to patients substantially all of whom are local residents. The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

**Significant Concentration of Economic Dependence**

The Hospital has an economic dependence on a small number of staff physicians who admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 11. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

**Net Patient Service Revenue**

The Hospital has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

**Inventory**

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market basis.

**Income Taxes**

The entity is a political subdivision and exempt from taxation.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property, Plant and Equipment**

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings	12 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred. The cost of assets retired or otherwise disposed of and related accumulated depreciation is eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are currently credited or charged to nonoperating revenue.

**Net Assets**

Net assets consist of net assets invested in capital assets (property and equipment, net of related debt); restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

**Revenue and Expenses**

The Hospital's statements of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2009, the balances reported by financial institutions for cash totaled \$358,355. Of the total, \$358,355 was covered by federal depository insurance.

As of June 30, 2008, the balances reported by financial institutions for cash totaled \$559,957. Of the total, \$200,000 was covered by federal depository insurance and \$359,957 was collateralized with securities held by the pledging bank in the District's name.

As of June 30, 2007, the balances reported by financial institutions for cash totaled \$776,798. Of the total, \$200,000 was covered by federal depository insurance and \$576,798 was collateralized with securities held by the pledging bank in the District's name.

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledged bank's trust department in the Hospital's name at June 30, 2009, 2008 and 2007.

Interest Rate Risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in the market interest rates. The Hospital does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

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**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Carrying amount			
Deposits	\$ 98,817	\$ 262,632	\$ 569,413
Investments	<u>219,796</u>	<u>215,250</u>	<u>207,385</u>
	<u>\$ 318,613</u>	<u>\$ 477,882</u>	<u>\$ 776,798</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 98,817	\$ 262,632	\$ 569,413
Short-term investments	<u>219,796</u>	<u>215,250</u>	<u>207,385</u>
	<u>\$ 318,613</u>	<u>\$ 477,882</u>	<u>\$ 776,798</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

A summary of accounts receivable is presented below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Patients	\$ 3,479,589	\$ 3,625,306	\$ 4,031,723
Other	<u>374</u>	<u>374</u>	<u>374</u>
Total	3,479,963	3,625,680	4,032,097
Estimated allowances for uncollectibles	<u>(1,843,000)</u>	<u>(1,680,000)</u>	<u>(2,318,000)</u>
Net accounts receivable	<u>\$ 1,636,963</u>	<u>\$ 1,945,680</u>	<u>\$ 1,714,097</u>

The following is a summary of the mix of receivables from patients and third-party payors at June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	14%	17%	18%
Medicaid	16%	23%	14%
Commercial and other third-party payors	26%	15%	14%
Self pay	<u>44%</u>	<u>45%</u>	<u>54%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of property, plant and equipment and related accumulated depreciation at June 30:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2009</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	104,280	650	-0-	104,930
Buildings	1,965,581	13,461	-0-	1,979,042
Fixed equipment	254,266	-0-	-0-	254,266
Major movable equipment	3,543,860	150,082	28,916	3,665,026
Leasehold improvements	<u>29,626</u>	<u>-0-</u>	<u>-0-</u>	<u>29,626</u>
Totals at historical cost	5,917,163	164,193	28,916	6,052,440
Accumulated depreciation	<u>3,729,205</u>	<u>433,115</u>	<u>19,759</u>	<u>4,142,561</u>
Net	\$ <u>2,187,958</u>	\$ <u>(268,922)</u>	\$ <u>9,157</u>	\$ <u>1,909,879</u>
	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2008</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	61,632	42,648	-0-	104,280
Buildings	1,637,838	327,743	-0-	1,965,581
Fixed equipment	254,266	-0-	-0-	254,266
Major movable equipment	3,222,915	335,091	14,146	3,543,860
Leasehold improvements	29,626	-0-	-0-	29,626
Construction in progress	<u>21,276</u>	<u>15,691</u>	<u>36,967</u>	<u>-0-</u>
Totals at historical cost	5,247,103	721,173	51,113	5,917,163
Accumulated depreciation	<u>3,318,427</u>	<u>414,601</u>	<u>3,823</u>	<u>3,729,205</u>
Net	\$ <u>1,928,676</u>	\$ <u>306,572</u>	\$ <u>47,290</u>	\$ <u>2,187,958</u>

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**NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT (Continued)**

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2007</u>
Land	\$ 19,550	\$ -0-	\$ -0-	\$ 19,550
Land improvements	52,496	9,136	-0-	61,632
Buildings	1,546,810	91,028	-0-	1,637,838
Fixed equipment	240,716	13,550	-0-	254,266
Major movable equipment	2,925,295	590,391	292,771	3,222,915
Leasehold improvements	29,626	-0-	-0-	29,626
Construction in progress	<u>10,446</u>	<u>10,830</u>	<u>-0-</u>	<u>21,276</u>
Totals at historical cost	4,824,939	714,935	292,771	5,247,103
Accumulated depreciation	<u>3,106,376</u>	<u>396,718</u>	<u>184,667</u>	<u>3,318,427</u>
Net	\$ <u>1,718,563</u>	\$ <u>318,217</u>	\$ <u>108,104</u>	\$ <u>1,928,676</u>

A summary of assets held under capital leases, which are included in property, plant and equipment, at June 30 follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Equipment	\$ 960,042	\$ 1,140,071	\$ 1,111,575
Accumulated depreciation	<u>662,543</u>	<u>595,177</u>	<u>450,346</u>
Total	\$ <u>297,499</u>	\$ <u>544,894</u>	\$ <u>661,229</u>

**NOTE 6 - ASSETS WHOSE USE IS LIMITED**

The following assets are restricted as to use as designated below:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Restricted by third parties:			
Series 2003 proceeds to be disbursed	\$ <u>2,784</u>	\$ <u>2,781</u>	\$ <u>2,768</u>

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**NOTE 7 - ACCRUED EXPENSES**

A summary of accrued expenses follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Salaries	\$ 282,328	\$ 248,576	\$ 234,530
Payroll taxes	6,902	6,276	68,729
Other	<u>50,906</u>	<u>48,801</u>	<u>44,992</u>
 Total	 \$ <u>340,136</u>	 \$ <u>303,653</u>	 \$ <u>348,251</u>

**NOTE 8 - LONG-TERM DEBT**

A summary of long-term debt, including capital lease obligations, at June 30 follows:

	June 30, <u>2008</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2009</u>	Due Within <u>One Year</u>
Series 2009 anticipation note	\$ -0-	\$ 456,126	\$ -0-	\$ 456,126	\$ 456,126
Series 2008 anticipation note	295,000	300,000	595,000	-0-	-0-
Series 2007 bonds	300,000	-0-	16,000	284,000	16,000
Series 2003 bonds	820,000	-0-	150,000	670,000	155,000
Note payable - unsecured	34,445	-0-	9,275	25,170	10,147
Capital lease obligations	<u>529,619</u>	<u>45,403</u>	<u>193,734</u>	<u>381,288</u>	<u>157,731</u>
 Total	 \$ <u>1,979,064</u>	 \$ <u>801,529</u>	 \$ <u>964,009</u>	 \$ <u>1,816,584</u>	 \$ <u>795,004</u>

  

	June 30, <u>2007</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2008</u>	Due Within <u>One Year</u>
Series 2008 anticipation note	\$ -0-	\$ 295,000	\$ -0-	\$ 295,000	\$ 295,000
Series 2007 bonds	-0-	300,000	-0-	300,000	16,000
Series 2003 bonds	965,000	-0-	145,000	820,000	150,000
Note payable - unsecured	42,927	-0-	8,482	34,445	9,275
Capital lease obligations	<u>670,515</u>	<u>42,642</u>	<u>183,538</u>	<u>529,619</u>	<u>197,692</u>
 Total	 \$ <u>1,678,442</u>	 \$ <u>637,642</u>	 \$ <u>337,020</u>	 \$ <u>1,979,064</u>	 \$ <u>667,967</u>

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**NOTE 8 - LONG-TERM DEBT (Continued)**

	June 30, <u>2006</u>	<u>Additions</u>	<u>Payments</u>	June 30, <u>2007</u>	Due Within <u>One Year</u>
Series 2003 bonds	\$ 1,105,000	\$ -0-	\$ 140,000	\$ 965,000	\$ 145,000
Series 1998 bonds	14,000	-0-	14,000	-0-	-0-
Note payable - unsecured	54,866	-0-	11,939	42,927	8,481
Capital lease obligations	<u>317,237</u>	<u>523,930</u>	<u>170,652</u>	<u>670,515</u>	<u>180,630</u>
Total	\$ <u>1,491,103</u>	\$ <u>523,930</u>	\$ <u>336,591</u>	\$ <u>1,678,442</u>	\$ <u>334,111</u>

The following are the terms and due dates of the Hospital's long term debt at June 30:

- Series 2009 Revenue Anticipation Notes, at an interest rate of 2.88%, due in one installment on June 1, 2010, secured by a pledge of tax and other revenues. The borrowing is for the purpose of paying the cost of current operations for the fiscal year ending June 30, 2010. On June 30, 2009 the outstanding balance was \$456,126; the total remaining available for borrowing was \$43,874.
- Series 2008 Revenue Anticipation Notes, at an interest rate of 2.88%, due in one installment on June 1, 2009, secured by a pledge of tax and other revenues. The borrowing is for the purpose of paying the cost of current operations for the fiscal years ending June 30, 2008 and 2009. On June 30, 2008 the outstanding balance was \$295,000; the total remaining available for borrowing was \$205,000. These bonds were paid out on June 1, 2009.
- Series 2007 Hospital Improvement Bonds, at a variable interest rate not to exceed 5.00%, due in variable semi-annual installments with full repayment at August 1, 2022, secured by a pledge of tax revenues. The reason for borrowing was to renovate patient rooms.
- Series 2003 Certificate of Indebtedness, at a variable interest rate not to exceed 4.3%, due in variable annual installments with full repayment at March 1, 2013, secured by a pledge of tax revenues.
- Series 1998 Certificates of Indebtedness at 5.05%, due in variable annual installments with full repayment at March 1, 2007, secured by a pledge of tax revenue.
- Secured note payable at 8.75%, secured by the nurses call system, due in monthly payments of \$359.01, paid out March 2006.
- Unsecured notes payable at 9.0%, due in monthly payments of \$1,000 with the first two payments including balloon payments of \$4,000 with the total due September 11, 2011.
- Unsecured notes payable of \$50,421 imputed interest of .05%, due in monthly payments of \$4,186.79 for purchase of telephone system. Capital leases at varying rates of imputed interest 6.39% to 9.68%, with total monthly payments ranging from \$65 to \$8,878 until 2014, collateralized by leased equipment with a net book value of \$297,499 at June 30, 2009.



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**NOTE 8 - LONG-TERM DEBT (Continued)**

Scheduled principal and interest payments on long-term debt and payments on capital obligations are as follows:

Year Ending June 30,	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 637,273	\$ 52,500	\$ 157,731	\$ 20,270
2011	192,097	32,377	120,896	11,157
2012	190,926	24,762	79,901	4,387
2013	197,000	17,407	14,438	1,511
2014	17,000	9,267	8,322	349
2015 and thereafter	<u>201,000</u>	<u>47,945</u>	<u>-0-</u>	<u>-0-</u>
Totals	\$ <u>1,435,296</u>	\$ <u>184,258</u>	\$ <u>381,288</u>	\$ <u>37,674</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

**NOTE 9 - COMPENSATED ABSENCES**

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital charged operations for accrued paid days off and vested sick pay of \$175,903, \$146,627 and \$167,055 in 2009, 2008 and 2007, respectively. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

**NOTE 10 - RETIREMENT PLAN**

On February 9, 2004, the Hospital elected to participate in the State of Louisiana's Public Employees Deferred Compensation Plan, which is a defined contribution plan. The plan was established in accordance with R.S. 42:1301-1308, and Section 457 of the *Internal Revenue Code of 1986*, as amended. At June 30, 2009, 2008 and 2007 there were 43, 49 and 66 plan members, respectively. Employees are eligible to participate in the plan beginning on the date of hire, with a minimum contribution of \$10 per month, up to 100% of compensation, for those under age 50 not to exceed \$15,500 and \$16,500 in 2008 and 2009, respectively, for those 50 or older \$20,500 and \$21,500 are the contribution limits for 2008 and 2009, respectively. The Hospital has elected to contribute 1% of the participating employees' pay. The Hospital holds all rights to change and/or stop its contribution at any time. Employees are immediately vested in employer and employee

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**NOTE 10 - RETIREMENT PLAN (Continued)**

contributions. The Hospital's contribution was \$20,112, \$22,543 and \$29,159 for the years ended June 30, 2009, 2008 and 2007, respectively. Employees contributed \$85,796 for the year ended June 30, 2009.

**NOTE 11 - PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

**Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The physician clinic changed status in fiscal year 2007 to a rural health clinic. Rural health clinics are paid on a cost based methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis, with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2010. The additional payments received under the hold harmless provision were \$127,601, \$62,068 and \$86,681 for the years ended June 30, 2009, 2008 and 2007, respectively. Swing bed services are reimbursed based on a prospectively determined rate per patient day based on clinical, diagnostic, and other factors. Inpatient psychiatric services are reimbursed based upon a prospective methodology based upon length of stay, diagnosis, and other factors.

**Medicaid** - Inpatient acute and psychiatric services are reimbursed based on a prospectively determined per diem rate. Rural health clinics are paid on a per visit basis. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

**Commercial** - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

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**NOTE 11 - PATIENT SERVICE REVENUE (Continued)**

The following is a summary of the Hospital's net patient service revenue for the year ended June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Gross patient service charges	\$ 20,375,534	\$ 21,115,712	\$ 18,808,221
Contractual allowances	(5,760,060)	(7,729,146)	(7,091,759)
Medicaid disproportionate share payments	17,824	1,127,708	776,114
Discounts	(239,298)	(239,829)	(124,533)
Free care	(65,347)	(68,028)	(292,447)
Provision for bad debts	<u>(3,190,388)</u>	<u>(2,978,209)</u>	<u>(2,149,966)</u>
Net patient service revenue	\$ <u>11,138,265</u>	\$ <u>11,228,208</u>	\$ <u>9,925,630</u>

The Hospital generated a substantial portion of its charges from Medicare and Medicaid programs at discounted rates. The following is a summary of gross Medicare and Medicaid patient charges:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare and Medicaid gross patient charges	\$ 12,716,790	\$ 13,630,660	\$ 12,622,058
Contractual adjustments	<u>(4,649,692)</u>	<u>(5,795,799)</u>	<u>(5,761,503)</u>
Program patient service revenue without Medicaid UCC	\$ <u>8,067,098</u>	\$ <u>7,834,861</u>	\$ <u>6,860,555</u>
Percent of total gross patient charges	<u>62%</u>	<u>55%</u>	<u>67%</u>
Percent of total net patient revenue	<u>72%</u>	<u>70%</u>	<u>69%</u>

The Hospital received interim amounts of \$17,824, \$1,127,708 and \$776,114 for Medicaid and self-pay uncompensated care services (UCC) for the years ended June 30, 2009, 2008 and 2007, respectively, which represents .2%, 10.0% and 7.8% of net patient service revenue, respectively. The interim payments received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. Management estimated that the Hospital was overpaid by \$232,000 and \$288,000 during the years ended fiscal 2003 and fiscal 2001, and has made provisions for such recoupments. To the extent management's estimates differ from actual results; the differences will be used to adjust income for the period when differences arise. Future uncompensated cost payments are dependent upon state appropriations, which require annual approval by the state legislature. Should the state not fund or substantially change this program, it would have a significant impact on the Hospital's revenue.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Notes to Financial Statements  
Years Ended June 30, 2009, 2008 and 2007

**NOTE 12 - PROFESSIONAL LIABILITY RISK**

The Hospital participates in the Louisiana Patient's Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patient's Compensation Fund ("PCF"), the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limiting the PCF's exposure to \$400,000 per occurrence.

The Hospital has acquired additional coverage for professional medical malpractice liability through a private insurance carrier by purchasing a claims-made policy.

**NOTE 13 - CONTINGENCIES**

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 11) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 12) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund.

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Notes to Financial Statements  
Years Ended June 30, 2009, 2008 and 2007

**NOTE 13 - CONTINGENCIES (Continued)**

Litigation and Other Matters - Various claims in the ordinary course of business are pending against the Hospital. In the opinion of management and counsel, insurance is sufficient to cover adverse legal determinations in those cases where a liability can be measured.

**NOTE 14 - AD VALOREM TAXES**

The Hospital levies two property taxes on all property subject to taxation in the service district. The three mills tax was imposed for ten years, beginning with the year 2007 and ending with the year 2016. The twelve mills tax runs for a period of ten years, beginning with the year 2003 and ending with the year 2012, to be dedicated and used for operating, maintaining, renovating and improving emergency medical services. Property taxes are collected through the local sheriff's office and remitted, net of collection fees, to the Hospital. Property tax notices are mailed by November 5 each year and are due by December 31. The lien date is January 31.

**NOTE 15 - CHARITY CARE**

The amount of charges forgone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$65,347, \$68,028 and \$292,447, in 2009, 2008 and 2007, respectively. The costs related to the charity care charges are \$37,901, \$39,497 and \$170,432, in 2009, 2008 and 2007, respectively.

**NOTE 16 - GOING CONCERN**

As shown in the accompanying financial statements, the Hospital has a current ratio of 1.0 as of June 30, 2009. This financial indicator combined with three of the last five years of negative earnings creates an uncertainty about the Hospital's ability to continue as a going concern. Management of the Hospital has developed the following plan to increase revenues and decrease expenses to return the Hospital to a profitable position. The ability of the Hospital to continue as a going concern is dependent on the plan's success. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

- Increase acute patient care admissions
- Reduce patient receivables by enhanced procedures for monitoring case mix and pre-certifying all psychiatric patients
- Decrease expenses by renegotiating contracts for services
- Eliminated one physician's practice from within the rural health clinic
- Retire short-term bond of \$500,000 to improve current ratios

**NOTE 17 - SUBSEQUENT EVENTS**

Events have been evaluated through October 31, 2009, for subsequent event disclosure.

## SUPPLEMENTARY INFORMATION

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Schedules of Net Patient Service Revenue  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Routine services			
Adult and pediatric	\$ 307,970	\$ 398,825	\$ 333,149
Psychiatric	5,552,944	6,447,299	6,318,848
Swing bed	<u>143,250</u>	<u>171,500</u>	<u>178,250</u>
 Total routine services	 <u>6,004,164</u>	 <u>7,017,624</u>	 <u>6,830,247</u>
Other professional services			
Operating room	122,558	152,004	217,875
Radiology	3,593,990	3,239,491	2,726,889
Nuclear medicine	177,826	238,368	183,666
Laboratory	2,401,883	2,343,520	2,025,737
Blood	45,210	44,785	26,600
Intravenous therapy	102,809	117,125	97,209
Respiratory therapy	302,761	310,209	273,281
Physical therapy	739,606	855,237	681,866
Electrocardiology	276,880	329,090	276,607
Central supply	449,557	478,117	414,486
Pharmacy	1,405,231	1,595,899	1,338,637
Observation room	49,232	11,348	5,578
Physician clinic	329,916	224,863	168,684
Rural health clinic	969,250	1,244,605	1,180,789
Emergency room	2,808,680	2,315,572	1,879,369
Home health visits	495,320	497,590	379,200
Contract physician	<u>100,661</u>	<u>100,265</u>	<u>101,501</u>
 Total other professional services	 <u>14,371,370</u>	 <u>14,098,088</u>	 <u>11,977,974</u>
 Gross patient service revenue	 <u>20,375,534</u>	 <u>21,115,712</u>	 <u>18,808,221</u>
Contractual allowances	5,760,060	7,729,146	7,091,759
Medicaid disproportionate share payments	(17,824)	(1,127,708)	(776,114)
Discounts	239,298	239,829	124,533
Free care	65,347	68,028	292,447
Provision for bad debts	<u>3,190,388</u>	<u>2,978,209</u>	<u>2,149,966</u>
 Total deductions from revenue	 <u>9,237,269</u>	 <u>9,887,504</u>	 <u>8,882,591</u>
 Net patient service revenue	 \$ <u>11,138,265</u>	 \$ <u>11,228,208</u>	 \$ <u>9,925,630</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Schedules of Other Operating Revenue  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Meals	\$ 25,021	\$ 23,025	\$ 21,108
Medical records transcript fees	4,729	3,472	2,891
Rental	4,225	7,444	3,500
Other income	<u>29,625</u>	<u>35,422</u>	<u>145,488</u>
 Total other operating revenue	 \$ <u>63,600</u>	 \$ <u>69,363</u>	 \$ <u>172,987</u>



Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Schedules of Operating Expenses - Salaries and Benefits  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Administration	\$ 508,756	\$ 535,363	\$ 473,184
Plant operations and maintenance	128,337	158,633	117,217
Housekeeping	100,987	102,460	104,982
Dietary and cafeteria	150,155	150,651	144,386
Medical records	91,647	92,737	88,447
Nursing services, acute care	826,218	737,590	677,786
Psychiatric unit	1,138,113	1,022,865	870,260
Operating room	3,431	6,378	15,196
Radiology	307,799	295,071	290,211
Laboratory	296,191	317,094	270,531
Respiratory therapy	153,358	146,113	139,881
Central supply	29,689	29,106	26,246
Pharmacy	136,894	119,600	124,813
Emergency room	582,681	498,116	489,765
Home health	233,211	229,234	224,317
Physician clinic	208,137	182,533	-0-
Rural health clinic	<u>818,547</u>	<u>909,397</u>	<u>871,312</u>
 Total salaries	 <u>5,714,151</u>	 <u>5,532,941</u>	 <u>4,928,534</u>
 Payroll taxes	 405,829	 400,353	 358,335
Health insurance	350,964	404,984	303,459
Retirement	20,112	22,543	29,159
Other	<u>4,499</u>	<u>2,566</u>	<u>5,967</u>
 Total benefits	 <u>781,404</u>	 <u>830,446</u>	 <u>696,920</u>
 Total salaries and benefits	 \$ <u>6,495,555</u>	 \$ <u>6,363,387</u>	 \$ <u>5,625,454</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Schedules of Operating Expenses - Other Expenses  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Legal and accounting	\$ 83,075	\$ 83,597	\$ 68,458
Repairs and maintenance	229,711	212,790	125,987
Telephone	74,999	81,249	75,497
Utilities	189,019	183,819	148,862
Travel	71,904	88,498	80,683
Rentals	98,733	79,675	100,395
Dues and subscriptions	33,239	30,271	22,363
Physician recruitment	-0-	25,884	10,106
Miscellaneous	<u>45,531</u>	<u>47,115</u>	<u>83,751</u>
 Total other expenses	 \$ <u>826,211</u>	 \$ <u>832,898</u>	 \$ <u>716,102</u>

Hospital Service District No. 3  
Of the Parish of Allen, State of Louisiana  
d/b/a Allen Parish Hospital  
Hospital Enterprise Fund  
Schedules of Per Diem and  
Other Compensation Paid to Board Members  
Years Ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Board Members:			
Dr. Peggy Allemand	\$ 480	\$ 480	\$ 440
Ms. Carla Marcantel	600	650	550
Mr. Richard Hollier	360	480	400
Mr. Ronald Craiger	500	600	550
Mr. Jessie Chaffin	480	520	440
Mr. Royce Scimemi	320	-0-	-0-
Mr. Joe Green	200	-0-	-0-
Ms. Barbara Lee	80	440	320
Mr. Matt Martin	<u>-0-</u>	<u>360</u>	<u>240</u>
 Total	 \$ <u>3,020</u>	 \$ <u>3,530</u>	 \$ <u>2,940</u>

**LESTER, MILLER & WELLS***A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana

We have audited the financial statements of Hospital Service District No. 3, Parish of Allen, a component unit of the Allen Parish Police Jury, ("Allen Parish Hospital") as of and for the years ended June 30, 2009, 2008 and 2007, and have issued our report thereon dated November 12, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Allen Parish Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Allen Parish Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-01, 2008-04, 2007-04, and 2007-05.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Commissioners  
Hospital Service District No. 3  
Parish of Allen, State of Louisiana  
Kinder, Louisiana  
Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allen Parish Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and that is described in the accompanying schedule of findings as item 2008-05.

This report is intended solely for the information of the Board of Commissioners, management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lester, Miller & Wells*

Certified Public Accountants  
Alexandria, Louisiana

November 12, 2009



Allen Parish Hospital  
Schedule of Findings  
Year Ended June 30, 2009

**Prior Year Findings:**

**Internal Control**

**2008-01 Patient Accounts Receivable**

**Finding:** The District did not reconcile patient account balances maintained by a third party with the general ledger. Additionally, the District did not monitor the results of the third party's billings.

**Recommendation:** We recommend reconciling on a monthly basis the subsidiary ledger maintained by the third party to the general ledger. We also recommend the District establish goals for the third party and review the billing reports to insure performance is maintained.

**Response:** Effective October 1, 2008, we began billing in-house for Allen Parish Hospital Rural Health Center and Allen Parish Hospital Medical Clinic. On January 31, 2009, the third-party billing company will return all patient accounts receivable for further collection in-house. This will facilitate reconciliation of patient account balances with the general ledger.

**Resolution:** This matter has not been resolved.

**2008-02 Capital Leases**

**Finding:** Documentation of capital leases was not being kept in an organized manner. Some lease agreements were missing or changed from original leases. Lack of communication and organization contributed to this problem.

**Recommendation:** We recommend placing one person in charge of approving and documenting lease agreements. Notifying vendors of this contact person will allow more control over leasing arrangements. Accounting should have complete signed copies of the leases prior to paying any invoices and be notified of any trade-ins or terminations of leases.

**Response:** Administration will be involved in all new lease agreements or modifications of existing agreements and will insure that the accounting department receives copies of all new/modified lease agreements.

**Resolution:** This matter has been resolved.

**2008-03 Authorized Purchases**

**Finding:** The District purchased a used nuclear camera without prior approval from the Board of Commissioners.

**Recommendation:** We recommend the Board approving an authorization purchasing and contract matrix for the management of the Hospital.

**Response:** Until further directed by the Board of Commissioners, all purchases and leases will be subject to Board approval.

**Resolution:** This matter has been resolved.

Allen Parish Hospital  
Schedule of Findings  
Year Ended June 30, 2009

**Prior Year Findings (Continued):**

**Internal Control (Continued)**

**2008-04 Contractual Allowances**

**Finding:** The District overstated accounts receivable and income when estimating its allowances for bad debts and contractual adjustments from third party payors.

**Recommendation:** We recommend reviewing the methodology for estimating allowances for receivables on a quarterly basis to determine the appropriateness and accuracy of the computation.

**Response:** We have reviewed the methodology of estimating contractual allowances and have made appropriate adjustments. The methodology will be reviewed on a quarterly basis.

**Resolution:** This matter has not been resolved.

**Compliance**

**2008-05 Louisiana Bid Law**

**Finding:** The District was unable to provide support for compliance with the Louisiana bid law.

**Recommendation:** We recommend the District maintain notes on telephone bids and copies of published newspaper advertisements to demonstrate compliance with the bid law.

**Response:** Administration will be involved in all purchases and will insure that documentation is maintained to demonstrate compliance with the Louisiana Bid Law.

**Resolution:** This matter has not been resolved.

Allen Parish Hospital  
Schedule of Findings  
Year Ended June 30, 2009

**Prior Year Findings (Continued):**

**Internal Control**

**2007-01 Cash Receipts**

**Finding:** Receipts for cost report settlement and uncompensated care payments were incorrectly posted.

**Recommendation:** Unusual or infrequent receipts of non patient items should be properly identified before posting to the general ledger.

**Response:** We have resolved this issue and it will be the responsibility of the Revenue Cycle Director to maintain future compliance.

**Resolution:** This matter has been resolved.

**2007-04 Financial Statements**

**Finding:** In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, SAS 112 now requires management to insure propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary internally to complete the reporting requirements.

**Recommendation:** Management should either (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost overrides the benefit of correcting this control deficiency.

**Response:** Our goal will be to obtain the knowledge necessary to internally prepare or review the auditor's preparation of the Hospital's financial statements and related footnote disclosures in accordance with GAAP.

**Resolution:** This matter has not been resolved.

**2007-05 Segregation of Duties**

**Finding:** Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording and custody functions.

**Recommendation:** We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related assets; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

**Response:** We will work to have the staff and the knowledge to segregate duties so that internal controls can be in place to prevent intentional and unintentional errors.

**Resolution:** This matter has not been resolved.



Allen Parish Hospital  
Schedule of Findings  
Year Ended June 30, 2009

**Prior Year Findings (Continued):**

**Internal Control (Continued)**

**2005-01 Reconciliation of Cash**

**Findings:** The general checking account bank reconciliation contained unreconciled differences. These differences were related to the posting of the physician clinic's accounts receivable.

**Recommendation:** We recommend reviewing the daily posting of the clinic's deposits and setting up procedures to prevent unreconciled differences.

**Response:** Management will put procedures in place to insure account balances and cash are correct.

**Resolution:** This matter has been resolved.